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New Retirement Proposal Tied To Active Duty Pay

By Lieutenant General Leo E. Benade,
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(Military Personnel Policy)

In view of past trends in military compensation and proposals to change military compensation, it is clear that substantial increases in military pay have or will shortly occur. *Competitive active duty pay levels have been reached for each military pay grade.* Through study and conscious design of the military compensation system, a greater proportion of resources has been allocated into active duty pay.

The military nondisability retirement system is an important interdependent element in the overall compensation system. Changes to the retirement system may require changes in other elements of the compensation system. Conversely, and perhaps more importantly, changes in other elements of the compensation system may quite possibly require changes in the retirement system.

With the transfer of resources into increased active duty compensation, some change in the elements of the retirement system could logically be expected. There is also a substantial interrelationship between the compensation system, of which retirement is an important element, and the personnel management system. The elements of the compensation system can significantly affect the ability of the personnel manager to attract and retain the kind and numbers of personnel required in all-volunteer environment. *(Continued on Page 2.)*

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

Retirement Questions Answered. Lt. Gen. Leo E. Benade, Deputy Assistant Secretary of Defense (Military Personnel Policy) Recently Answered A Number Of Vital Questions Concerning The Defense Department's New Proposed Nondisability Retirement Plan. For The Answers To Questions Fielded By Gen. Benade During The Pentagon Conference, See Page 3.

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". . . An equity payment is provided for the first time to all members, officer and enlisted, who voluntarily leave active duty after 10 but before, 20 years of service. . . ."

Changes to the compensation system or a reallocation of resources within the compensation system can improve the efficiency of the personnel management system.

The Department of Defense proposals to change the nondisability retirement system support our personnel management goals and are required as a result of the substantial reallocation of resources within the compensation system to provide Servicemen with a greater level of pay now.

Let me cite what I believe are the primary advantages of the proposed retirement system. There is a gradual transition to full implementation of the plan spanning more than 20 years. *Members with 20 or more years of service at the time of implementation of the new system are minimally affected.* In fact, members on active duty with less than 20 years are only partially affected. This transition provision is based on the amount of time an individual spends under today's relatively competitive pay scales. The more time a member has spent under the competitive active duty pay scales, the more the effect of the new plan. Only new entrants onto active duty are fully under the new plan.

Included in the proposal is a save-pay provision that guarantees equity to members presently on active duty. *Today's levels of retirement pay represent the floor. No one in the future will receive less.* Most individuals presently on active duty who will retire at a future date will, in fact, receive significantly more in retired pay.

Next, the plan avoids the burden of a contributory retirement system.

Further, eligibility for 20 year retirement with an immediate annuity is retained in the new plan.

The plan contains some new and needed improvements in the areas of equity and readjustment payments. *An equity payment is provided for the first time to all members, officer and enlisted, who voluntarily leave active duty after 10, but before 20, years of service.*

The new plan also provides an equity payment and readjustment pay for the first time to all enlisted members and some officers who involuntarily leave active duty after 5, but before, 20 years of service.

Thousands of Service members will benefit from the provision of increased multipliers. The multiplier increases by three percent for each year after 24 rather than the present two and a half percent. Some 23,000 enlisted members and about 14,000 officers presently on active duty stand to benefit from this provision.

And most important, the recently enacted Survivor Benefit Plan provides increased survivor protection at low cost. *The Survivor Benefit Plan offers increased survivor protection at no cost to members on active duty with 20 or more years of service, and the low cost significantly increases the value of retired pay for those members who do retire.*

I am very much aware that the proposals to change the nondisability retirement system are complex. But I believe the complexity stems from the transition and save-pay provisions and from the substantial effort that has been made to insure maximum benefit to all Servicemen, both those in the force now and those to come in the future.

COMMANDERS DIGEST

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Retirement Plan: Key Questions and Answers

The new Department of Defense legislative proposal to alter the current nondisability retirement system has created much interest among career Service personnel.

Questions being asked are many, ranging from "Why change the present retirement system?" to "Is it DoD's intent to encourage 30 years of service before longevity retirement?" Then, too, there are technical questions, such as involuntary retirements before 20 years and the effect the proposal may have on the new Survivor Benefit Plan.

Because such questions exist, Army Lieutenant General Leo E. Benade, Deputy Assistant Secretary of Defense (Military Personnel Policy), appeared on worldwide Armed Forces Radio and Television recently to explain the legislative initiative and to answer questions.

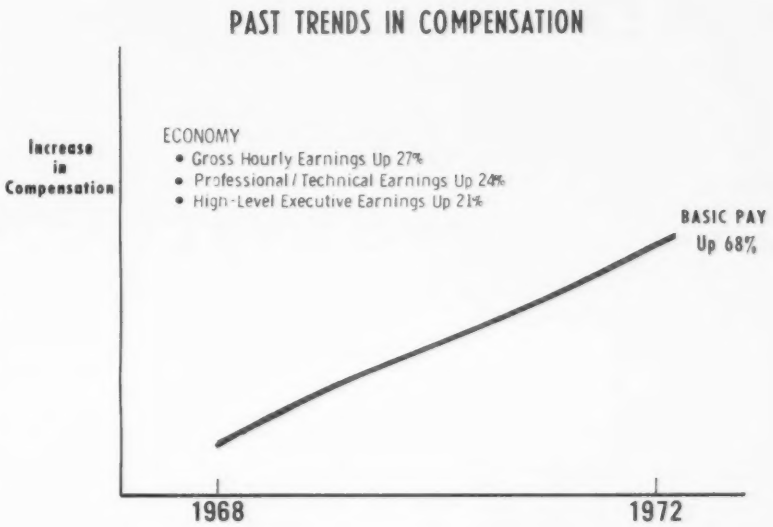
Earlier, General Benade, the Defense official responsible for presenting DoD personnel legislation before Congress, authorized a special issue of COMMANDERS DIGEST (Reallocation of Resources: Military Retirement (1) October 26, 1972). This was a version of the briefing he presented to Congress and remains the authentic, in-depth summary of the proposal.

The General is first to admit the new proposal is complicated, and for that reason made himself available for questions from the field.

This issue of COMMANDERS DIGEST—Reallocation of Resources: Military Retirement (2)—is an excerpted version of his remarks.

QUESTION: If the proposed new system is devised to make it, "more effective as a management tool," doesn't this compromise the whole career system and make the plan something other than a retirement system?

ANSWER: I certainly don't think that it compromises the compensation system in any way. I think what is very important to remember is that the retirement system is simply one element of the total compensation system. And it's very important to look at the compensation system as an integrated and interlocking whole, and not a series of separate parts, each one separate and distinct from the other.



In past years, many of us in the career military Service have often told ourselves —and I think you all recognize the expression—"We may not receive very good pay while we're on active duty, but a liberal retirement system makes up for it." I believe this approach is no longer applicable.

In almost every other element of our society, the concepts of pay at the time service is being rendered, and a competitive level of pay while service is being rendered are fundamental. The military compensation system should be guided by these same concepts.

An important factor, with respect to the retirement system, is that in human nature there is an automatic feeling, "I don't like it, unless it's a constant adding-on." Now, remember that today's levels of retirement pay represent a floor. *No one is going to get anything less than the levels of retirement pay being paid today.* And by any standard, those levels of pay are extremely liberal. Nothing is being changed in that sense. We're looking to the future, and to the people who will be serving in military Service in the future. A fundamental premise of the new plan is that future members will be doing their service at levels of competitive pay that their predecessors never enjoyed. In and of itself, that's a great plus.

There is one last thing we have to remember. There are two sides to this equation. One is the Service member. He deserves to be and should be treated fairly and equitably. But the other is the United States taxpayer, and we're all taxpayers too. We have a right, as Service members, to fair and equitable treatment. The taxpayers have a right to pay fairly for the services being rendered to them.

Q.: One of the main purposes of this proposed system is to encourage officers and enlisted members to remain on active duty for 30 years. Now at the present time, only regular officers and E-9s are allowed to remain for 30 years in the Service under the up or

out concept. Will there be a change in this to allow E-8s and below and Reserve officers to remain for 30 years in the service? Or will the new system benefit only regular officers and E-9s?

A.: First, the plan does not visualize that greater numbers of people are going to be retained in military service. What it is intended to do is to provide the necessary incentive for more individuals to want to stay, and thus to allow the Service to select those individuals with the qualities and skills required to do the proper manning of the force.

This is still not inequitable to the individual. We have to examine again some of the fundamental concepts that underlie our system. There is no other system in the United States, public or private, which compares to the military in terms of permitting retirement at the relatively young ages that the military system does.

Prior to World War II, when we had a force that was only a fraction of the size force that the United States has maintained since World War II, certain retirement rules might have been all right. But you cannot indefinitely maintain forces in excess of two million, such as we have done and which, presumably, we will be doing for the foreseeable future, and expect to apply the same economic rules regarding retirement.

You must keep in mind that the average enlisted member enters the Service at about age 19. If he were to serve for 20 or 21 years, he would only be 39 or 40 years of age when he leaves the Service and goes into a second career elsewhere. The average officer enters the Service at about 23 years of age. If he were to serve 20 or 21 years, he's 43 or 44 years of age when he retires.

Literally, it is true that under that kind of a system many people will receive more in retirement pay than they ever received in basic pay while they were on active duty. I think you can see that the proportion of compensation in terms of the time at which it's being paid isn't the right proportion.

That's what's being changed. *The individual who under the new system still goes out at 20 or 21 years is still going to enjoy a dollar level of retirement pay that will compare favorably with anything that could be earned anywhere else in the United States.*

Q.: This retirement proposal is tied into Social Security and Social Security has increased over 50 percent in the last four years. Are there any examples showing what this type of growth rate in Social Security would mean in 20 years to our retirement?

A.: I don't have examples readily at hand. It would be a little bit too difficult to use examples with this type of program. But I think your basic point is that if we were to have significant increases in the level of Social Security, that this would represent a correspondingly larger offset from military retired pay.

That's technically true, of course. But at the same time, if Social Security benefits were to rise at a rapid rate, I think, we have to assure reasonably that active duty compensation and correspondingly, retirement benefits would also continue to increase because if you were to have significant increases in Social Security—this would indicate that we are having a steady rise in the cost-of-living.

Therefore, I think active duty pay and retirement benefits would roughly keep pace. To the extent that Social Security benefits might in the future outstrip advances in active duty pay and, correspondingly, retirement pay, then, yes, there would be a significant offset from Social Security.

But, I think the really important thing is to remember that the plan contemplates applying only one-half of a Social Security offset and only that part of Social Security which is directly attributable to military service. The formula that has been adopted to determine what the offset would be is extremely liberal in favor of the individual. Therefore, I do not visualize that the one-half of Social Security offset would really be a significant factor.

What makes Social Security an important part of the DoD retirement proposal and the reason there should be a recognition of Social Security is that otherwise you have the Government in effect paying twice for retirement for the same service. In other words, the individual would be receiving from the Government two retirement checks based on exactly the same period of Federal Service.

Background

In 1957, when military personnel were first put under the Social Security System, it was recognized that the day would come when military personnel, especially those who went on to retirement, would actually be receiving a duplication of benefits. Nonetheless, it was decided to go ahead with putting military personnel under Social Security because of two major reasons. The first is the valuable insurance aspects of Social Security in regard to income-maintenance. Second, it was recognized then, and it is still true today, that out of every 100 entrants into military service, only about 10 or 11 go on to qualify for retirement benefits. This means that for the other 89 or 90 individuals out of a 100 who enter the Service and who do not go on to retirement, the year they spent in the military, if they were not covered under Social Security, would be lost years for Social Security wage credits.

For those who go on to retirement, I think there is no question that the present system does represent the Government's paying twice for the same service. It is intended to eliminate that duplication. But the 50 percent offset recognizes that the individual contributed 50 percent of the Social Security benefit and the Government contributed 50 percent of the Social Security benefit. It is only that 50 percent of the Government's contribution that would be offset.

And again remember, it will take 30 years for the full offset to be applicable in the case of Social Security.

Q.: In essence, doesn't the proposed retirement plan provide the Department of Defense with a natural tool whereby, with a clear conscience, the Department of Defense can tell a man with 12 years of service that he is no longer needed and release him for the good of the Service? I'm considering here a man who is doing a good job, but is in a specialty that's overcrowded, like some of the Navy's communications technician specialists are today.

A.: I believe you were using the example of an enlisted member with approximately 12 years of service, who suddenly finds himself in a surplus skill. And the question is, what would happen to that individual, if he were to be relieved from active duty?

I think this case would vividly illustrate one of the great improvements that the new plan would bring. Under today's system if that member were to be relieved from active duty, he gets exactly nothing by way of compensation for the time that he has put in.

But for the individual in the new plan, because he's being involuntarily released and because he has more than 10 years of service, he would, for example, be eligible for an equity payment.

Q.: What if an enlisted man separates at age 30, if he has 10 years of active duty service, and he elects not to draw an annuity until age 60, or the deferred annuity—what happens to this annuity if he dies in this interim period?

A.: There would be a payment, based on the lump-sum cash formula, that would be payable to the wife. In other words, it's not a total loss. The payment then is made to the man's widow or estate.

Q.: In that example you gave of 12 years service, what other benefits would this individual be entitled to at age 60 under the deferred annuity plan?

A.: In addition, of course, to receiving retired pay, he would be eligible for all other benefits which are payable and which flow from retired status. For example, the individual would be able to participate in the Survivor Benefit Plan. The individual would be eligible for commissary and exchange privileges, and space-available medical care on the same basis as other retirees. In other words, the total benefit of retired status would flow to him the same as it would to a 20 or more years' service retiree. I emphasize, again, that you can see how much more equitable this is in its treatment of individuals who, up until now, have received no recognition for their service.

Q.: Are personnel management goals actually aided by the proposed system which gives more benefits to involuntary retirees with less than 20 years service than to voluntary retirees?

A.: The greater benefits go to the involuntary separatee rather than to the voluntary separatee. The man who separates voluntarily has to have at least 10 years of service and less than 20. It is only if he has more than 10 years of service that he gets the deferred annuity at age 60. Now an individual who is involuntarily released need only have 5 or more years of service in order to receive benefits. The involuntarily released individual is eligible for two payments, both the readjustment payment, and either deferred retirement pay at age sixty or the additional five percent times the years of service times the high rate, high one year average on basic pay.

So the involuntarily released individual is treated more liberally than the individual who voluntarily separates. Presumably, the man who leaves the Service voluntary is doing so for his own purposes. It may be to obtain a particular type of employment or for reasons that.

New Program Advantages

1. Gradual transition spans more than 20 years.
   - Members with 20 or more years of service minimally affected.
   - Members on active duty with less than 20 years of service only partially affected. The more time under today's competitive active-duty pay scale, the more the affect of the new plan.
   - Only new entrants to active duty are fully under the plan.
2. Save-pay provision guarantees equity.
   - Today's levels of retired pay represent the floor; no one in the future will receive less. Most will receive significantly more.
3. Plan is necessarily complex.
   - The new plan is complex because of the gradual transition provision and the substantial efforts put forth to insure maximum benefits to all Service members—present and future.
4. Retirement system remains "free."
   - New plan avoids the burden of a contributory system for members on active duty today.
5. 20-year retirement remains.
   - The new plan retains 20-year retirement eligibility with an immediate annuity.
6. Equity and readjustment payments provided.
   - The new plan provides an equity payment for the first time to all members—officer and enlisted—who voluntarily leave active duty after 10 but before 20 years of service.
   - The new plan provides readjustment pay, for the first time, to all enlisted men and some officers who involuntarily leave active duty after 5 but before 20 years of service.
7. Increased multipliers benefit thousands.
   - The multiplier increases to 3 percent for each year of service after 24 (rather than 2½ percent).
   - 23,000 enlisted men and 14,000 officers presently on active duty stand to gain.
8. Survivor benefits protection available at low cost.
   - Low cost of the new survivor benefit plan significantly increases the value of retired pay.
   - Increased survivor protection offered at no cost to member on active duty with 20 or more years of service.

in his case, make it more desirable for him to leave the Service than to remain.

Q.: You mentioned that an individual with perhaps 15 years' service, let's say, now on active duty, would receive an immediate annuity upon 20 year retirement. What type of annuity would that be?

A.: Perhaps I have been misunderstood. I didn't mean to imply that an individual with 15 years of service would receive an immediate annuity. An individual who voluntarily was to leave the Service with 15 years of service can only get retirement pay if he were to go into the Reserve and serve satisfactorily for at least 5 years in the Reserve. He then would have a combination of active duty and satisfactory service in the Reserve which would make him eligible for retirement. But this Title III retiree is eligible for retirement pay only at age 60. So the hypothetical individual we're talking about would not be entitled to receive retirement pay until age 60.

Q.: Could we possibly extend that example, the individual with today, say, 15 years' service who, at the 20 year mark, does, in fact, retire. What type of an immediate annuity would he receive, having completed 20 years' service?

A.: The individual who has 15 years of service at the time our proposals are implemented then serves an additional 5 years for retirement eligibility. For personnel on active duty at the time the new law becomes effective, there is a transition provision which is a part of the plan.

Under the new plan, the retirement multiplier continues to be two and a half percent for each year of active service. However, instead of the single flat type of annuity which is payable today, the new plan contemplates three levels of annuity. *The first level of annuity is for 30 years of service, which is considered the normal or full miltiary career. There then is the Early Retirement Immediate Annuity, which may begin as early as 20 years or at some point between 20 and 30 years of service.* When the individual who retires with less than 30 years of service reaches that point when he would have completed 30 years of service had he stayed on active duty, he would be eligible for an Increased Annuity at that 30-year point.

Let's apply this information to the case that's been brought up here. An individual, who has 15 years of service when this plan starts, and who serves 5 years after implementation, and then retires with 20 years, would have a normal retirement multiplier of two and a half percent of each of those 20 years, or 50 percent of basic pay. Because he is retiring with less than 30 years of service, if the plan were fully implemented, there would be a 15 percent reduction in that 50 percent. In other words, he would have a multiplier of 35 percent, rather than 50. When he then reached that point where he would have completed 30 years of service, the multiplier goes up to the 50 percent level.

I indicated that we have a transition feature as part of the proposal and the key to the transition is that it is related to the number of years that the individual spends under what are competitive pay scales. In this example, the individual has spent 5 years under the competitive pay scale; that is, 5 years after implementation until he retires. So the formula is related to 20 years of service at retirement. In this individual's case, the transition factor is calculated by subtracting the number of years of service the individual had at implementation 15 from 20 years of service, resulting in an amount of 5. This difference is then divided by 20 years of service. This product, or amount, is then subtracted from the 15 percent transition factor to represent the true amount that would be the differential received because of retirement at some point less than 30 years of service. It would be in this case considerably less than the 15 percent reduction that a similar individual would incur if all of his service came after the implementation of this new system.

Q.: How will the new retirement plan affect the Survivor Benefit Plan? And will the cost and coverage be based on the full retirement or the reduced retirement? Example: a man with full retirement pay of $900 per month, $495 to his spouse at a cost of $67.50. If his reduced retirement pay is $450, will his wife still get $495, or will she get $247.50? And will it cost him $77.50 or $22.50.

A.: The survivor's benefit portion is payable on the full amount of the retired pay. And the cost would be in accordance with the cost formula that is prescribed.

Q.: Under the new plan, will creditable service, as it is applicable under the present plan—will that change? And a double-barreled question, if I may. Will you crystal-ball for us and give us an estimate as to your idea as to when this might be implemented?

A.: Nothing in the proposed plan would change present definitions of law so far as creditable service for determining retirement eligibility. With respect to the second part of the question, I can only give you my best judgment on it. *The proposed legislation will be submitted to the first session of the 93d Congress probably in the early spring of '73.*

The plan is complex, admittedly, because of the desire to protect the equities of individuals presently on active duty and to have very gradual transition to the features of the plan. Because it is complex and because it does affect all individuals on active duty and those to come in the future, I am sure that Congress will be very, very thorough in its hearings and in its consideration of the proposal, and *I would, therefore, expect that it's very possible that we may not actually have legislation until the latter part of next year.* It's even possible that it may take, in terms of final Congressional action, until the first part of '74.

METHOD OF TRANSITION

- **FORMULA FOR MEMBERS WITH LESS THAN 20 YOS AT IMPLEMENTATION**

$$\frac{\text{20 YOS - YOS at implementation}}{\text{20 YOS}} = \text{Transition Factor}$$

- **APPLICATION**
  - Member retires 10 years after implementation with 23 YOS (Multiplier for Increased Annuity = 57.5%)
  - He, therefore, had 13 YOS at implementation
    - Transition % = $15\% \times \frac{20 - 13}{20} = 5.25\%$
    - Multiplier for Early Retirement/Immediate Annuity = 57.5 - 5.25 = 52.25%

But I am satisfied that the need is so urgent for change in the retirement system, from the standpoint of the needs of the Department of Defense, as well as the need to make the system more equitable for the individual, and the Congress's concern that we must modernize and improve our system, that I am very sure there will be Congressional enactment in this area. *Whether it will be precisely this plan as submitted by the Administration or whether it will be the plan basically as submitted with some modifications that the Congress may prefer, no one can say.*

Again, speaking purely from a personal point of view. *I would be surprised if in something this complex—if there weren't some changes made by Congress.* Hopefully, the changes will be further improvements in the plan. But in any event, I am confident in my own mind that there will be legislation enacted in this area in the not too distant future.

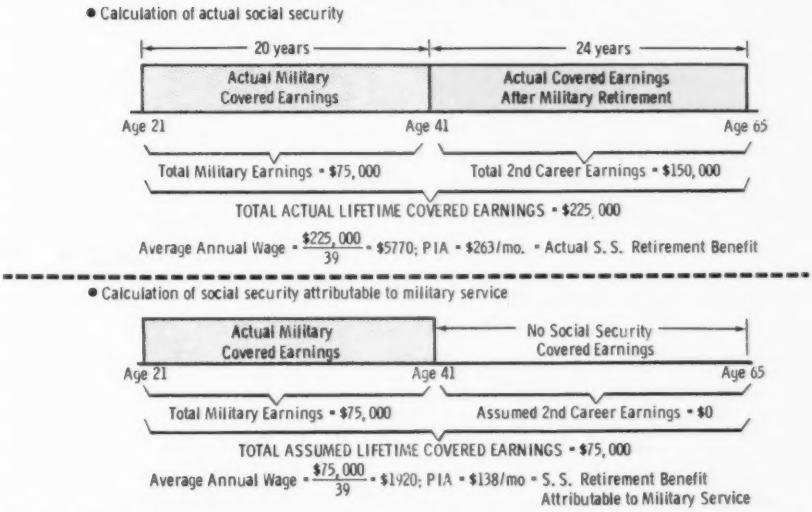
Q.: A two-part question . . . first of all, why is it necessary to integrate Social Security and retirement annuity? And the second half is that, if this is necessary, why not eliminate Social Security altogether for military members and incorporate the benefits of Social Security into the military retirement system?

A.: I indicated earlier that Social Security retirement benefits for military personnel represent duplicate payments by the Government for precisely the same period of service. In other words, the government is paying in the first place very liberally for the years that the individual spent in military service. Ultimately the Social Security retirement benefit, to the extent that it is based on military service, is paying another check for retirement for exactly the same service.

The proposed plan would simply recognize that the individual paid 50 percent for that benefit and the Government paid 50 percent; in other words, what's being offset is the Government's 50 percent. As to why not just take the military out from Social Security, the answer is that throughout the time that the individual is covered for Social Security it is an extremely valuable benefit to the man and to his family.

You must remember, if a member were to die on active duty, and there are dependent children at home, the widow is immediately eligible for benefits from the Social Security system over and above any benefits payable from the man's active duty service. And those are extremely valuable benefits. And it's very important, I think, for all of us in uniform to understand those benefits. And I have the feeling that in many cases, particularly with our newer members, they're not fully aware of the value of those benefits. I would urge as a collateral point that those members and their families who are not well informed on precisely what Social Security benefits they may receive through participation in the Social Security system, that they do a little reading on the subject and talking with their personnel officers, because it's very important that we understand the Social Security benefits which we at some point may utilize.

ACTUAL SOCIAL SECURITY BENEFIT COMPARED TO SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE


• Calculation of actual social security
20 years
24 years
Actual Military Covered Earnings
Actual Covered Earnings After Military Retirement
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Total 2nd Career Earnings = $150,000
TOTAL ACTUAL LIFETIME COVERED EARNINGS = $225,000
Average Annual Wage = $225,000 / 39 = $5770; PIA = $263/mo. = Actual S. S. Retirement Benefit
• Calculation of social security attributable to military service
Actual Military Covered Earnings
No Social Security Covered Earnings
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Assumed 2nd Career Earnings = $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS = $75,000
Average Annual Wage = $75,000 / 39 = $1920; PIA = $138/mo = S. S. Retirement Benefit Attributable to Military Service

Q.: Are the provisions of the new legislation applicable equally to men Service members as well as women Service members. And if both members of a family are retired military members, do they receive equal payment?

A.: Again, there's nothing in the new system that would change existing law. In other words, where you have two Service members each of whom have completed 20 or more years of active duty, they would both be eligible for retirement pay in their own right. And there is nothing in the new system that would affect either their eligibility or the level of retirement pay or anything else. In other words, their marital status is not a part of the equation whatsoever.

Q.: The save-pay provision is supposed to ensure that those who serve under both the old and the new system will not be losing any money under this transition. Take an example: if a man retires at the end of 20 years' service at so much per month base pay, this would translate under the old plan to half of that per month in retirement pay; now subtract 15 percent less each month under the new system and with active duty pay outstripping retirement pay at better than three percent each year, are the Consumer Price Index add-ons of the save-pay provisions going to make up that difference between what he would be getting under the present system, if that were continued, or what he'll be getting under the new plan?

A.: You have made an implicit assumption and you have to stop and ask yourself, "just what assumptions am I making?" If you have, for example, 15 years of service at the time the new plan goes into effect, you're not going to be eligible to retire for another 5 years or 6 or 7 or whatever your personal plans call for. You have to ask yourself what do you think your rate of retired pay is going to be 5 or 6 or 7 years into the future. In one case you can assume that there are not going to be any more pay raises between the time this law goes into effect and the time you retire. If so, both under existing law and both under the law as is being pro-

posed, the dollar level of retirement pay, would be exactly the same.

If you assume that active duty pay, and thus retired pay, is going to go up by a certain percentage, and if you assume that regardless of the rising cost of retirement, or regardless of any other pressures on the Defense budget, that the level of basic pay and the level of retirement pay would not be affected, then, you can say that retirement pay in the future for the early retiree will not be as great it would be if the 50 percent formula were left untouched and unchanged.

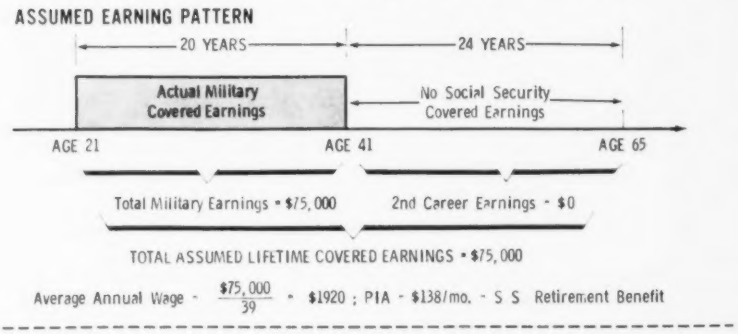
But you have to stop and realize what a big assumption that is. *Manpower costs now are getting up to about 56 or 57 percent of the budget.* I don't have to belabor the point, I think, that *no matter how much we have by way of size of the Defense budget, the competition for resources is tremendous.* The more money that is expended in one area of the budget simply means less funds available for something else. I think the combination of all of these pressures is such that it would very well affect the rate and the frequency and the size of future active duty basic pay increases. And so you can get the same dollar result, actually, without changing the formula whatsoever.

Those are things that all of us, I think, both as people in uniform and as concerned taxpayers, have to ask ourselves.

Another important point is that when young men and young women come into the service they're told that under our present system if they serve as least 20 years they can retire. We'll even assume they're told you can retire with 50 percent of your retired pay. Remember, however, that all you're doing is expressing a formula to them. You cannot tell them what the actual dollar level of their retired pay 20 years in the future is going to be. And what's really important, when the time comes to them and to his or her family, is not a formula: they don't spend a formula. They spend the actual dollars they receive in retired pay. That's what counts.

Again I emphasize that when you keep in mind that *today's levels of retired pay, for each grade and each years-of-service bracket, represents the floor for future retired pay levels, I don't think anyone can feel that retired pay is being diminished.* It's a question of how much are you going to have retired pay rise in the future and at what rate, particularly when there is a desire to pay more while the man is on active duty. In toto, the combination of what he will receive in competitive pay on active duty and what he will receive in retirement pay will certainly add up to more than the total of those two elements today.

SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE


ASSUMED EARNING PATTERN
20 YEARS
24 YEARS
Actual Military Covered Earnings
No Social Security Covered Earnings
AGE 21
AGE 41
AGE 65
Total Military Earnings = $75,000
2nd Career Earnings = $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS = $75,000
Average Annual Wage = $75,000 / 39 = $1920 ; PIA = $138/mo. = S S Retirement Benefit
TRANSITION
ASSUME MEMBER RETIRES ONE YEAR AFTER IMPLEMENTATION
OFFSET AT AGE 65 = $138 X 1/2 X 1/20 = $3.45/mo.

Q.: The Serviceman's wife has a vested interest in her husband's Primary Insurance Amount (PIA). So she must count on 82.5 percent of this amount to live on in case of her husband's death, providing that he dies before his 20 years of service. What effect will this new proposal have upon her entitlement to her husband's Social Security benefits?

A.: First of all, under the most recent amendment to the Social Security laws, the 82.5 percent that was the previous widow's portion of the PIA, or the Primary Insurance Amount, has now been increased to 100 percent depending on a variety of factors and this is a very significant liberalization.

The other part of the answer is that there is no effect. If a member dies, whether it's on active duty or after retirement, the widow's eligibility and entitlement under Social Security are not affected. For example, if the man dies on active duty, and there are dependent children at home, the widow is eligible for an immediate payment from Social Security as well as Dependency and Indemnity Compensation from the Veterans Administration, and such other benefits as are payable from the military.

Q.: To sum up, just what is the true impact of this legislative proposal on nondisability retirement?

A.: It would be difficult for me to exaggerate the importance of these proposals. *It will represent the first time in about 23 years, since 1949, that there will be or will have been an exhaustive look at the concepts and principles that underlie our compensation system.*

The retirement system that we have in the military is something we should zealously guard, and I think we should prize it, because it represents a very real benefit. But on the other hand, nothing is immutable, and I would hope that *before people make a final judgment that they do or don't like the changes, that they first make sure that they understand the changes,* because they are difficult and they are complex. Equally important, people *must understand the reasons for the changes being made.* Once you know and understand the proposed changes and the rationale for them, and what the long-range implications are, both under the present system and under the proposed changes, then an individual can make up his mind.

I don't think anything can ever be proposed that everyone would agree on a 100 percent, just like there are many people who don't like a good many features of the present retirement system. But I think the proposals, on balance, are a significant improvement for all personnel.

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